

Message Text

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DRAFTED BY EUR/RPE:DLAMB:APD

APPROVED BY EUR - JGLOWENSTEIN

EUR/RPM - D TELLEN

CIA/OSR - D BURTON (SUBS)

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SUBJECT: ECONADS: REVISED PAPER ON SOVIET DEFENSE
SPENDING

REF: USNATO 6275

1. AS REQUESTED BY THE MISSION AND THE ECONOMIC DIRECTO-
RATE, U.S. EXPERT (BURTON) HAS REVIEWED AND EXTENSIVELY
REVISED DRAFT REPORT ON SOVIET DEFENSE SPENDING. REVISED
TEXT FOLLOWS.

2. SOVIET OUTLAYS FOR DEFENSE AND SPACE IN 1974 ARE
ESTIMATED TO LIE IN THE RANGE OF 27 TO 32 BILLION RUBLES.
THIS IS SOME 50 TO 80 PERCENT GREATER THAN THE OFFICIAL
DEFENSE BUDGET FIGURE, WHICH IS RELEASED BY THE SOVIETS
FOR POLITICAL PURPOSES. IF THE VARIOUS COMPONENTS OF THE
SOVIET DEFENSE EFFORT ARE MEASURED IN TERMS OF THE COST OF
REPRODUCING THEM IN THE US, THE SOVIET DEFENSE EFFORT IN
QUANTITATIVE TERMS IS SOMEWHAT LARGER THAN THAT OF THE US.

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3. OF MORE INTEREST THAN THE LEVEL OF SPENDING IN ANY SINGLE YEAR, HOWEVER, IS THE TREND OF THE SOVIET DEFENSE EFFORT OVER TIME. SINCE 1960, SOVIET SPENDING FOR DEFENSE IN REAL TERMS HAS BEEN INCREASING AT AN AVERAGE RATE OF ABOUT 3 PERCENT PER YEAR. THE PRINCIPAL CAUSES FOR THIS UPWARD TREND HAVE BEEN THE RAPID GROWTH IN OUTLAYS FOR MILITARY R&D AND SPACE AND A RISE IN OPERATING COSTS RESULTING FROM A STEADY INCREASE IN MANPOWER AND WEAPONS INVENTORIES.

4. WHILE THE PATH OF SOVIET DEFENSE SPENDING HAS BEEN GENERALLY UPWARD, IT HAS BEEN MARKED BY THREE WELL-DEFINED CYCLES. IN THE EARLY SIXTIES AND AGAIN IN THE SECOND HALF OF THE DECADE, ANNUAL GROWTH RATES EXCEEDED THE LONG TERM GROWTH RATE. IN 1963-65 AND 1970-72, SPENDING FOR DEFENSE LEVELED OFF. THE EXPANSIONARY PHASE OF THE THIRD CYCLE BEGAN IN 1973.

5. THE VARIATIONS IN ANNUAL RATES OF GROWTH IN SOVIET DEFENSE SPENDING APPEAR TO HAVE BEEN INDEPENDENT OF ECONOMIC CONDITIONS OR SHORT TERM POLITICAL CONSIDERATIONS. THEY RESULT, RATHER, FROM THE WIDE CYCLICAL VARIATION IN ANNUAL OUTLAYS FOR THE PROCUREMENT OF STRATEGIC MISSILE SYSTEMS WHICH WEIGH HEAVILY IN SOVIET WEAPONS PROCUREMENT. MILITARY R&D PROGRAMS HAVE ALSO FOLLOWED A CYCLICAL PATTERN WITH EXPENDITURE PEAKS PRECEDING LARGE SCALE PROCUREMENT SPENDING FOR STRATEGIC SYSTEMS. SPENDING FOR OTHER WEAPONS SYSTEMS HAS EXHIBITED LESS VARIATION FROM YEAR TO YEAR.

6. FOLLOWING TWO YEARS WITHOUT GROWTH, SOVIET DEFENSE SPENDING ENTERED A NEW EXPANSIONARY PHASE IN 1973. AS WITH PREVIOUS CYCLES THE MAIN IMPETUS TO THIS SURGE IS PROCUREMENT OF ICBMS, BUT RAPIDLY EXPANDING OUTLAYS FOR TACTICAL AIRCRAFT HAVE ALSO PLAYED A MAJOR ROLE. THE RATES OF GROWTH IN DEFENSE SPENDING WHICH HAVE ACCOMPANIED THIS CYCLE--SOME 5 PERCENT PER YEAR BETWEEN 1972 AND 1975--ARE HIGHER THAN FOR ANY COMPARABLE PERIOD IN THE PAST.

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7. THE ANNUAL INCREASES DURING THE CURRENT CYCLE ARE STRIKING, BUT THE GENERAL PATTERN IS CONSISTENT WITH PAST CYCLES AND GROWTH IS EXPECTED TO TAPER OFF IN 1977 AS THE MAJOR ICBM PROCUREMENT PROGRAMS NOW UNDER WAY APPROACH COMPLETION. IF THE PATTERN OF PAST SOVIET DEFENSE SPENDING IS REPEATED, HOWEVER, A RESURGENCE IN R&D OUTLAYS WILL KEEP TOTAL SPENDING AT THE NEW HIGH LEVEL. THE RESULT FOR THE SECOND HALF OF THE DECADE AS A

WHOLE, WOULD BE A CONTINUATION OF THE LONG RUN ANNUAL INCREASE OF 3 PERCENT.

8. THE SOVIET DEFENSE EFFORT NOW ABSORBS SOME 8 TO 10 PERCENT OF THE NATIONAL PRODUCT. THE SHARE OF GNP UNDER-STATES THE BURDEN OF DEFENSE ON THE SOVIET ECONOMY, HOWEVER, BECAUSE DEFENSE DRAINS OFF A DISPROPORTIONATE

SHARE OF THE AVAILABLE HIGH QUALITY TECHNOLOGICAL AND MANAGERIAL RESOURCES, WHICH ARE SORELY NEEDED FOR THE MODERNIZATION OF THE SOVIET ECONOMY. INDEED, SOVIET LEADERS OFTEN COMPLAIN PUBLICLY OF THE HIGH COSTS OF DEFENSE. NONETHELESS, WITH THE NATIONAL PRODUCT GROWING AT AN ANNUAL RATE OF 5 TO 6 PERCENT PER YEAR, THE ECONOMY APPEARS CAPABLE OF SUSTAINING 3 PERCENT AVERAGE RATE OF GROWTH IN DEFENSE SPENDING WITHOUT UNDUE STRAIN. MORE-OVER, ECONOMIC CONSTRAINTS ALONE ARE NOT LIKELY TO DETER THE SOVIETS FROM ANY MILITARY PROGRAMS THAT THEY DEEM NECESSARY. SISCO

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